



# Complete Agenda

Democratic Service  
Swyddfa'r Cyngor  
CAERNARFON  
Gwynedd  
LL55 1SH

Meeting

**EXTRAORDINARY PENSIONS COMMITTEE**

Date and Time

**10.00 am, FRIDAY, 29TH SEPTEMBER, 2017**

Location

**Ystafell Gwyrfai, Council Offices, Caernarfon, Gwynedd. LL55 1SH**

Contact Point

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## **PENSIONS COMMITTEE**

### **MEMBERSHIP (7)**

#### **Plaid Cymru (4)**

Councillors

Aled W Jones  
Peter Read

Simon Glyn

Peredur Jenkins

#### **Independent (2)**

Councillors

John Brynmor Hughes

John Pughe Roberts

#### **Lib / Lab (1)**

Councillor

Stephen W. Churchman

#### **Co-opted Members**

Councillor David Cowans  
Councillor John Griffith

Conwy Borough Council  
Anglesey Council

#### **Ex-officio Members**

Chair and Vice-Chair of the Council

# **A G E N D A**

## **1. APOLOGIES**

To receive any apologies for absence

## **2. DECLARATION OF PERSONAL INTEREST**

To receive any declaration of personal interest

## **3. URGENT ITEMS**

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

## **4. MINUTES**

4 - 6

The Chairman shall propose that the minutes of the meeting of this committee held on 12.6.2017 to be signed as a true record

## **5. MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)** 7 - 28

For the committee to elect for professional client status and approve application with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

## **6. GWYNEDD PENSION FUND'S FINAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 AND RELEVANT AUDIT** 29 - 77

Present for information –

- The Pension Fund's Statement of Accounts post-Audit;
- Deloitte's 'ISA260' report.

## **7. MID YEAR TREASURY MANAGEMENT 2017-2018**

78 - 82

To consider the report of the Head of Finance

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## PENSIONS COMMITTEE 12.06.2017

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**Present:** Councillors: Stephen Churchman (Chair), Simon Glyn, John Griffith (Isle of Anglesey County Council Representative), John Brynmor Hughes, Peredur Jenkins, Aled Wyn Jones and John Pughe Roberts

Officers:- Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Nicholas Hopkins (Pensions Manager) and Lowri Haf Evans (Member Support Officer)

Others invited: Huw Trainor (Pension Board Member - observing)

### 1. ELECTION OF CHAIR

**It was decided to re-elect Councillor Stephen Churchman as Chair of this committee for 2017/18.**

### 2. ELECTION OF VICE-CHAIR

**It was decided to re-elect Councillor John Pughe Roberts as Vice-chair of this committee for 2017/18.**

### 3. APOLOGIES

Apologies were received from Councillor Peter Read.  
It was noted that Conwy Borough Council's representation had not been confirmed.

### 4. DECLARATION OF PERSONAL INTEREST

It was explained that there was no need for everyone to declare an interest due to the fact that they were in receipt / contributed to the Pension Fund

### 5. URGENT ITEMS

None to note

### 6. MINUTES

The Chair signed the minutes of the meeting of this committee, held on 16 March, as a true record.

### 7. WALES INVESTMENT POOL

Submitted – the report of the Head of Finance Department providing an update on the development of the All Wales Investment Pool that would be a vehicle to invest the assets of the eight Local Government Pension Scheme funds (LGPS) in Wales.

A brief presentation was given on the background of the Pools' development, and in the context of the governance arrangements, it was noted that the Governance Joint committee would meet formally at the end of June. In relation to the representation from Gwynedd's Fund, it was recommended that suitable representation should be planned for the Joint Committee, and it was suggested that the Chair of the Pensions Committee would

be the likely representative, in addition to the Head of the Finance Department. In the absence of the Chair, it was suggested that the Vice-chair should attend.

It was explained that the Joint Committee's first step would be to receive reports on the procurement process for appointing an Operator for the Joint Investment Vehicle, and recommended that the best applicant that met the specification's requirements should be appointed. It was noted that eight Operators had responded to the Selection Questionnaire, with six being invited to tender. Although it was intended to select an Operator during the Summer 2017, they would not become operational until April 2018.

In response to a question regarding the relationship between the Pensions Committee and the Operator in the context of holding discussions and communication, it was noted that it might be necessary for the Operator to provide the eight funds with details of their engagement and communication arrangements. In response to this observation, it was suggested that the Chair, at the next meeting of the Joint Committee, should propose this matter to be included as a specific item on the Joint Committee's agenda.

In response to a question regarding the penalty costs of breaching the contracts with the managers of the Gwynedd Fund's current mandates, it was noted that there would be potential transitional costs. It was further noted that there was research being carried out to consider splitting the costs among the eight funds (on a protection basis).

**RESOLVED to accept the progress report.**

**RESOLVED that the Chair of the Pensions Committee would represent Gwynedd on the Governance Joint Committee, with the Vice-chair attending in his absence.**

## **8. PENSIONS CONFERENCES**

Submitted - the report of the Head of Finance Department, requesting the members to nominate individuals to attend conferences on behalf of Gwynedd's Fund. It was explained that the Committee normally sent representatives on a rota basis to a number of conferences during the year, in order to maintain and improve members' and officers' skills.

**RESOLVED - the following nominations for the conferences in 2017**

- **LGPS Trustees Conference, Bournemouth - Councillor Aled Wyn Jones, Councillor Peter Read (Councillor Simon Glyn as a substitute for Councillor Peter Read)**
- **LGC Investment Summit, Newport, Councillor Peredur Jenkins, Councillor John Pughe Roberts (Councillor John Brynmor Hughes as a substitute)**
- **LAPFF Annual Conference, Bournemouth - Councillor Stephen Churchman**

## **9. PENSIONS MEETING DATES**

Submitted, for information - a report by the Head of Finance Department sharing the dates of Pensions meetings to enable Members to plan accordingly. It was highlighted that although the Pensions Committee was the decision-making body for the Pension Fund, that the Pension Board, the Investment panel and the Wales Pool Joint Committee contributed to arrangements such as providing an overview of the management and operation of the Pension Fund, scrutinising the performance of the Pension Fund's investments and governing the pooling of investments on behalf of the eight Welsh funds.

In response to the report, it was noted that the information was beneficial, and members were asked to note the dates in their diaries. It was agreed to circulate the dates of the "basic training for trustees" for the new members of the Committee, once the information was to hand.

**RESOLVED to accept the information.**

The meeting commenced at 2pm and concluded at 2:45pm

COMMITTEE: **Pensions Committee**

DATE: **29 September 2017**

TITLE: **Markets in Financial Instruments Directive II (MiFID II)**

PURPOSE: **For the committee to elect for professional client status and approve application with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.**

AUTHOR: **Dafydd L Edwards, Head of Finance**

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## **1. INTRODUCTION**

- 1.1** Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.
- 1.2** Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a 'per se professional client' or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.
- 1.3** Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

## **2. Election for professional client status**

- 2.1** MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.
- 2.2** The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

- 2.3** The new tests recognise the status of LGPS administering authorities as providing a ‘pass’ for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 1**
- 2.4** The election to professional status must be completed with all financial institutions prior to the change of status on 3<sup>rd</sup> January 2018. Failure to do so by local authorities would result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.
- 2.5** The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.
- 2.6** A flowchart of the process is attached as **APPENDIX 2** and the letter and information templates are attached as **APPENDICES 3 and 4**.
- 2.7** Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- 2.8** Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority’s investment advisor was terminated.
- 3. WALES PENSION PARTNERSHIP INVESTMENT POOL**
- 3.1** LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
- 3.2** In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use ‘safe harbour’ provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the “FPO”) or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the “PCISO”). These provisions would enable the

promotion and potential sale of units in fund structures to local authorities as retail investors. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

#### **4. RECOMMENDATION**

**4.1** It is recommended that the Pensions Committee:

- i) Notes the potential impact on the investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018.**
- ii) Approves the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.**
- iii) In electing for professional client status, the committee acknowledges and approves to forgo the protections available to retail clients.**
- iv) Delegates the Section 151 Officer the appropriate approvals for the purposes of completing the applications and determining the appropriate basis of the application.**

### **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

#### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

#### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

(A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

(B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

(C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

#### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

#### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client

## **5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

## **6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

## **7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

## **8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

## **9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

## **10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

## **11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

## **12. Transfer of financial collateral arrangements**

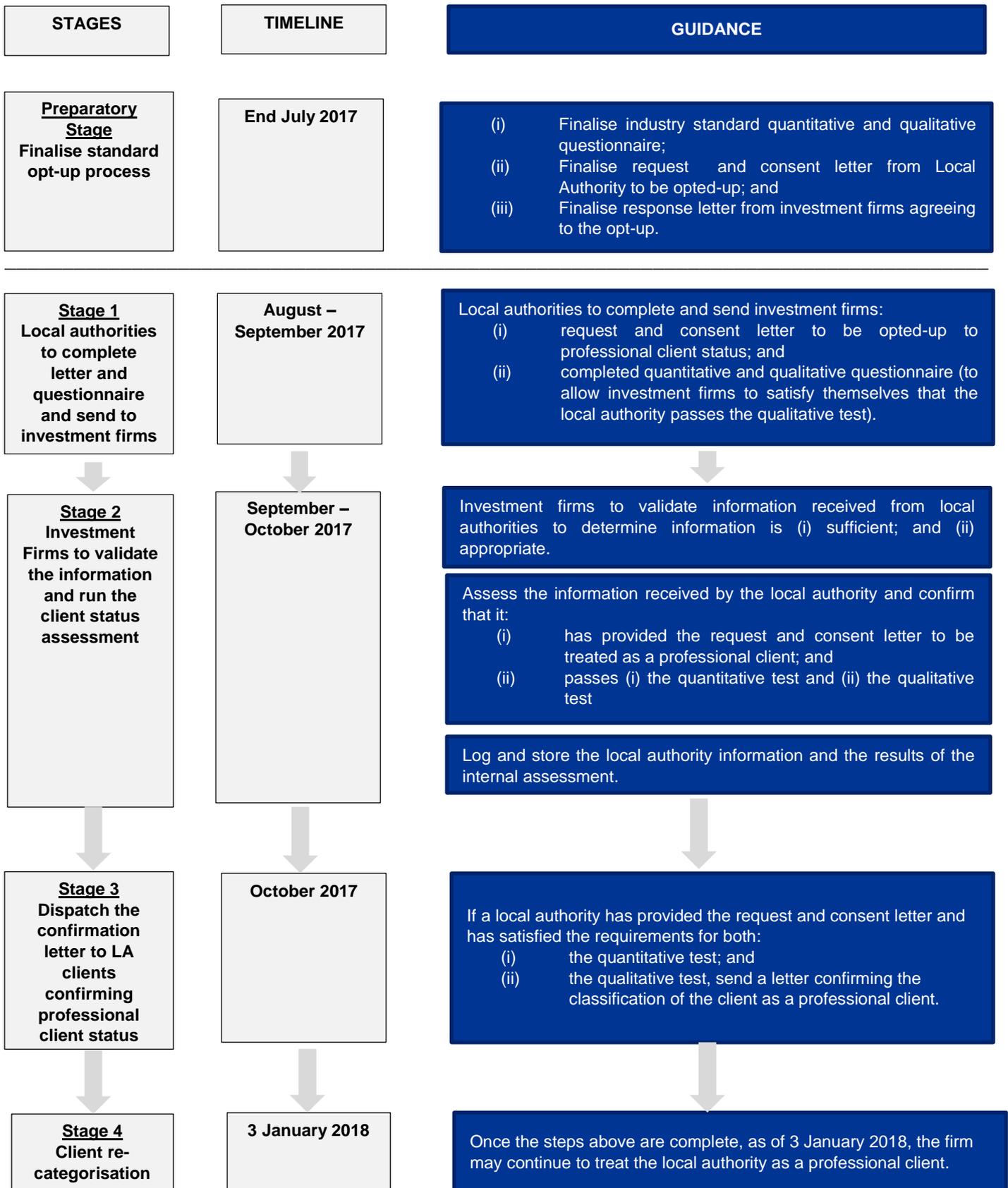
As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

## **13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

**It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.**

**UK Local Authority Client Opt-Up Process**



**Letter requesting categorisation as an elective professional client**

[ON [AUTHORITY] HEADED PAPER]

*[Manager name]*

*[Manager address]*

*[Date]*

Dear [●]

**Request to be treated as a professional investor**

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised

by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and

qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....  
**[insert name and position] [Authority]**

## **Schedule 1**

### **Warnings - loss of protections for the Local Authority if categorised as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

#### **Part 1 – Loss of protections as a Professional Client when receiving Services**

##### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

##### **2. Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

(A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

(B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

##### **3. Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

##### **4. Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

## **5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best

execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

## **6. Reporting information**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

## **7. Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

## **8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

## **9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

## **10. Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

## **11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

## **12. Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

### **13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

## **Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions**

### **1. Fund promotion**

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

### **2. Non-mainstream pooled investments**

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

### **3. Communicating with clients, including financial promotions**

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

### **4. Financial Ombudsman**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

### **5. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

**Elective Professional Client - Status Assessment**

**NAME OF LOCAL AUTHORITY:** \_\_\_\_\_

**CAPACITY:** As administering authority of the local government pension scheme

**NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**QUANTITATIVE TEST**

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme <b>exceed GBP 10,000,000</b>?</p> <p>Portfolio size _____ as at date: .....</p>	<p><input type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<p><input type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<p><i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i></p>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least <b>10 per quarter</b> for the <b>previous four quarters</b> (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> N/A</p>
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> N/A</p>

## QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions and understanding the risks involved**<sup>1</sup>.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

### TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

#### Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.
----	---

a	All decisions delegated to committee or sub-committee.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES NO	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES NO	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>
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3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions.  Details should include information on how the decision making body is constructed, constituted and periodically reviewed.
----	---

<sup>1</sup> COBS 3.5.3R (1)

## Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee?  <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered  hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

### Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement (England and Wales) or Statement of Investment Principles (Scotland) .	Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES <input type="checkbox"/> NO <input type="checkbox"/>

#### Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	

## Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
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Job title	Relevant qualifications	Years experience in role <sup>2</sup>

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
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Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?  <i>(Please tick whether you have enclosed or provided a link to details of the succession plan)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>

4.	For each <u>individual investment advisor</u> used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
----	---

Name	Relevant qualifications	Years experience in role <sup>3</sup>

<sup>2</sup> Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

<sup>3</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role <sup>4</sup>

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES  NO

<sup>4</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

**Section 6 General questions**

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment?  <i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
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2.	Please use the box below to provide any further information which may be useful in the support of your application.
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MEETING	<b>Pensions Committee</b>
DATE	<b>29 September 2017</b>
TITLE	<b>Gwynedd Pension Fund's Final Accounts for the year ended 31 March 2017 and relevant Audit</b>
PURPOSE	<b>Present for information –</b> <ul style="list-style-type: none"><li>• <b>The Pension Fund's Statement of Accounts post-Audit;</b></li><li>• <b>Deloitte's 'ISA260' report.</b></li></ul>
AUTHOR	<b>Dafydd L Edwards, Head of Finance</b>

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1. The Statement of Accounts for 2016/17 (pre-audit) was presented to the Audit and Governance Committee on 13 July 2017, when it was scrutinised accordingly. It was noted in the July meeting that these accounts would be subject to audit by Deloitte on behalf of the Auditor General for Wales.
2. The final version of the Pension Fund's Statement of Accounts and Deloitte's 'ISA260' report (on behalf of the Auditor General for Wales) was presented to the Audit and Governance Committee on 28 September 2017, and that report is attached for you today for information. Officers from the Council's Finance Department will explain the recommendations verbally in the Committee meeting.
3. After receiving the Letters of Representation duly certified by the Chairman of the Audit and Governance Committee and the Head of Finance, the Auditor General for Wales (Huw Vaughan Thomas) will issue the certificate on the accounts.
4. The Pensions Committee is asked to note and receive the Statement of Accounts and Deloitte / Wales Audit Office's report.

## GWYNEDD PENSION FUND ACCOUNTS 2016/17

31 March 2016 £'000		Notes	31 March 2017 £'000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
67,317	Contributions receivable	7	67,695
8	Interest on deferred contributions		7
3	Income from divorce calculations		2
5,075	Transfers in from other pension schemes	8	5,893
<b>72,403</b>	<b>Total contributions received</b>		<b>73,597</b>
(55,186)	Benefits payable	9	(53,982)
(2,852)	Payments to and on account of leavers	10	(3,970)
<b>(58,038)</b>	<b>Total benefits paid</b>		<b>(57,952)</b>
<b>14,365</b>			<b>15,645</b>
<b>(10,060)</b>	Management Expenses	11	<b>(11,641)</b>
	<b>Returns on Investments</b>		
11,874	Investment income	14	12,886
(530)	Taxes on income	15	(378)
12,383	Profit and (loss) on disposal of investments and changes in the market value of investments	16	322,316
<b>23,727</b>	<b>Returns on investments net of tax</b>		<b>334,824</b>
<b>28,032</b>	<b>Increase in the net assets available for benefits during the year</b>		<b>338,828</b>
	<b>Net assets of the Fund</b>		
1,497,373	At 1 April		1,525,405
28,032	Increase in net assets		338,828
<b>1,525,405</b>			<b>1,864,233</b>

## NET ASSETS STATEMENT AS AT 31 MARCH 2017

31 March 2016		Notes	31 March 2017
£'000			£'000
1,455,230	Investment assets	16	1,798,325
42,631	Cash deposits	16	49,248
<b>1,497,861</b>			<b>1,847,573</b>
(64)	Investment liabilities	16	(235)
31,887	Current assets	21	20,984
(4,279)	Current liabilities	22	(4,089)
<b>1,525,405</b>			<b>1,864,233</b>

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2016) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

# **NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS**

## **NOTE I – DESCRIPTION OF FUND**

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme and is administered by Gwynedd Council. The council is the reporting entity for this pension fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### **a) General**

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other schedule, resolution and admission bodies within the former Gwynedd County Council area. Teachers, police officers and firefighters are not included as they are in other national pension schemes. The Fund is overseen by the Pensions Committee, which is a committee of Gwynedd Council.

### **b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Gwynedd Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Resolution bodies, which are city, town and community councils. They have the power to decide if their employees can join the LGPS and pass a resolution accordingly.
- Admission bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

## NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

<b>Scheduled Bodies</b>	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NWTRA
<b>Resolution Bodies</b>	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
<b>Admission Bodies</b>	
Coleg Harlech WEA	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Ynys Môn Citizens Advice Bureau	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
<b>Community Admission Bodies</b>	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
<b>Transferee Admission Bodies</b>	
Caterlink	Jewsons
Superclean I	Antur Teifi
ABM Catering	

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2014 to 31 March 2017 following the actuarial valuation carried out as at 31 March 2013.

### d) Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	<b>Service pre - 1 April 2008</b>	<b>Service post - 31 March 2008</b>
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

## NOTE 1 – DESCRIPTION OF FUND (continued)

From 1 April 2014, the scheme became a career average scheme as summarised below:

	<b>Service post - 31 March 2014</b>
<b>Pension</b>	Each year worked is worth 1/49 x career average revalued earnings (CARE)
<b>Lump Sum</b>	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Accrued pension is increased annually in line with the Consumer Prices Index.

There are a number of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Gwynedd Pension Fund scheme handbook available from Gwynedd Council's Pensions Section.

Benefits are index-linked in order to keep pace with inflation.

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – revenue recognition

#### a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in and out are accounted for on a receipts and payments basis, which is normally when the member liability is accepted or discharged.

### **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### **c) Investment income**

##### **i) Interest income**

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

##### **ii) Dividend income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### **iii) Distributions from pooled funds including property**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### **iv) Movement in the net market value of investments**

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### **Fund account – expense items**

#### **d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### **e) Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### **f) Management expenses**

The Code does not require any breakdown of pension Fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension Fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

#### **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

#### **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs, management and other overheads associated with oversight and governance are apportioned to the Fund in accordance with Council policy.

#### **Investment management expenses**

All investment management expenses are accounted for on an accruals basis.

### **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with Fidelity International that an element of their fee be performance-related. The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

#### **Net assets statement**

##### **g) Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) **Market-quoted investments**  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities**  
Fixed interest securities are recorded at net market value based on their current yields.
- iii) **Unquoted investments**  
The fair value of investments for which market quotations are not readily available is determined as follows:
  - Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
  - Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
  - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.
- iv) **Pooled investment vehicles**  
Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

##### **h) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

##### **i) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **j) Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### **k) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

### **l) Additional voluntary contributions**

Gwynedd Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension Fund. There are three AVC funds. They are held with Clerical Medical, The Equitable Life Assurance Society and Standard Life. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement made up to 31 March confirming the amounts held in their account and the movements in year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

## **NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Unquoted private equity and infrastructure investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2017 was £110 million (£82 million at 31 March 2016).

### **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

## **NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the accounts. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (continued)**

Item	Uncertainties	Effect if actual results differ from assumptions
Debtors	At 31 March 2017, the Fund had a balance of sundry debtors of £5.6m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts.	If collection rates were to deteriorate, it would be necessary to reconsider this decision.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £110 million. There is a risk that this investment may be under or overstated in the accounts.

**NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE**

There are no significant events after the balance sheet date to report.

## NOTE 7 – CONTRIBUTIONS RECEIVABLE

### By category

2015/16		2016/17
£'000		£'000
52,149	Employers	52,439
15,168	Employees/Members	15,256
<b>67,317</b>		<b>67,695</b>

### By authority

2015/16		2016/17
£'000		£'000
22,722	Gwynedd Council	23,210
40,256	Other scheduled bodies	40,231
1,660	Admission bodies	1,514
2,227	Community admission bodies	2,215
203	Transferee admission bodies	252
195	Resolution bodies	219
54	Closed fund*	54
<b>67,317</b>		<b>67,695</b>

\* Closed fund – These are contributions received from North Wales Magistrates Court Committee which was an admitted body but is now a closed fund.

### By contribution

2015/16		2016/17
£'000		£'000
15,168	Employees' normal contributions	15,256
45,106	Employers' normal contributions	46,570
7,043	Employers' deficit recovery contributions	5,869
<b>67,317</b>		<b>67,695</b>

## NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16		2016/17
£'000		£'000
3,889	Group transfers	1,315
1,186	Individual transfers	4,578
<b>5,075</b>		<b>5,893</b>

## NOTE 9 - BENEFITS PAYABLE

### By category

2015/16		2016/17
£'000		£'000
39,477	Pensions	41,081
14,070	Commutation and lump sum retirement benefits	11,093
1,639	Lump sum death benefits	1,808
<b>55,186</b>		<b>53,982</b>

### By authority

2015/16		2016/17
£'000		£'000
15,094	Gwynedd Council	15,233
27,319	Other scheduled bodies	25,701
1,275	Admission bodies	1,561
709	Community admission body	1,095
35	Transferee admission body	173
86	Resolution body	58
10,668	Closed fund	10,161
<b>55,186</b>		<b>53,982</b>

## NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£'000		£'000
96	Refunds to members leaving service net of tax repayments	103
77	Payments for members joining state scheme	11
2,679	Individual transfers	3,856
<b>2,852</b>		<b>3,970</b>

## NOTE 11 – MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
1,186	Administrative costs	1,242
8,815	Investment management expenses (Note 13)	10,343
59	Oversight and governance costs	56
<b>10,060</b>		<b>11,641</b>

This analysis of the costs of managing the Gwynedd Pension Fund during the period has been prepared in accordance with CIPFA guidance.

## NOTE 12 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2015/16		2016/17
£'000		£'000
	<b>Administrative costs</b>	
447	Direct employee costs	486
368	Other direct costs	293
257	Support services including IT	303
29	External audit fees	33
85	Actuarial fees	128
<b>1,186</b>		<b>1,243</b>
	<b>Oversight and governance costs</b>	
59	Pensions Committee	55
<b>1,245</b>		<b>1,298</b>

Administrative expenses include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation. Further details are given in Note 24.

## NOTE 13 – INVESTMENT MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
8,685	Management fees	10,258
54	Custody fees	45
19	Performance monitoring service	3
57	Investment consultancy fees	37
<b>8,815</b>		<b>10,343</b>

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment funds.

The investment management expenses above include £322,972 (2015/16 £748,579) in respect of performance-related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

## NOTE 14 – INVESTMENT INCOME

2015/16		2016/17
£'000		£'000
788	UK equities	427
6,019	Overseas equities	6,405
853	Private equity	1,239
302	Infrastructure	207
3,764	Pooled property investments	4,475
148	Interest on cash deposits	133
<b>11,874</b>		<b>12,886</b>

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year.

The Council had a deposit of £4m with Heritable Bank, which went into administration in October 2008. There were no distributions during 2016/17. During 2015/16 a distribution of £22,615.66 was received by the Pension Fund. This amount has been included in the interest on cash deposits figure for 2015/16 in the above table. Further information is included in Note 27.

The Pension Fund also has a Euro account to deal with receipts and payments in Euros and minimise the number and costs of exchange transactions.

## NOTE 15 – TAXES ON INCOME

2015/16		2016/17
£'000		£'000
530	Withholding tax – equities	378
<b>530</b>		<b>378</b>

## NOTE 16 – INVESTMENTS

2015/16		2016/17
£'000		£'000
	<b>Investment assets</b>	
198,845	Fixed interest absolute return	236,625
269,784	Equities	345,284
746,944	Pooled equity investments	963,262
157,734	Pooled property investments	142,448
66,278	Private equity	82,023
15,262	Infrastructure	28,053
<b>1,454,847</b>		<b>1,797,695</b>
42,631	Cash deposits	49,248
383	Debtors	630
<b>1,497,861</b>	<b>Total investment assets</b>	<b>1,847,573</b>
	<b>Investment liabilities</b>	
(64)	Amounts payable for purchases	(235)
<b>(64)</b>	<b>Total investment liabilities</b>	<b>(235)</b>
<b>1,497,797</b>	<b>Net investment assets</b>	<b>1,847,338</b>

## Note 16a – Reconciliation of movements in investments and derivatives

<b>2016/17</b>	<b>Market value at 1 April 2016</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed interest absolute return securities	198,845	30,000	0	7,780	236,625
Equities	269,784	73,681	(76,100)	77,919	345,284
Pooled investments	746,944	15,347	(13,492)	214,463	963,262
Pooled property investments	157,734	18,373	(31,465)	(2,194)	142,448
Private equity / infrastructure	81,540	29,118	(18,212)	17,630	110,076
	<b>1,454,847</b>	<b>166,519</b>	<b>(139,269)</b>	<b>315,598</b>	<b>1,797,695</b>
Cash deposits	42,631			(387)	49,248
Amount receivable for sales of investments	383			(4)	630
Amounts payable for purchases of investments	(64)			(1)	(235)
Fees within pooled vehicles				7,109	
<b>Net investment assets</b>	<b>1,497,797</b>	<b>166,519</b>	<b>(139,269)</b>	<b>322,315</b>	<b>1,847,338</b>

<b>2015/16</b>	<b>Market value at 1 April 2015</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed interest absolute return securities	197,323	0	0	1,522	198,845
Equities	272,050	66,295	(82,842)	14,281	269,783
Pooled investments	773,481	7,279	(5,532)	(28,284)	746,945
Pooled property investments	143,288	2,266	0	12,180	157,734
Private equity / infrastructure	71,463	13,516	(12,066)	8,627	81,540
	<b>1,457,605</b>	<b>89,356</b>	<b>(100,440)</b>	<b>8,326</b>	<b>1,454,847</b>
Cash deposits	22,082			(47)	42,631
Amount receivable for sales of investments	420				383
Amounts payable for purchases of investments	(229)				(64)
Fees within pooled vehicles				4,104	
<b>Net investment assets</b>	<b>1,479,878</b>	<b>89,356</b>	<b>(100,440)</b>	<b>12,383</b>	<b>1,497,797</b>

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £171,393 (2015/16 £193,820). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

## Note 16b – Analysis of investments

31 March 2016 £'000		31 March 2017 £'000
	<b>Equities</b>	
	<b>UK</b>	
32,396	Quoted	37,453
	<b>Overseas</b>	
237,388	Quoted	307,832
	<b>Pooled funds</b>	
	<b>UK</b>	
234,401	Unit trusts	301,034
	<b>Global (including UK)</b>	
198,845	Fixed income	236,625
274,408	Unit trusts	355,661
	<b>Overseas</b>	
238,135	Unit trusts	306,567
157,734	<b>Property unit trusts</b>	142,447
66,278	<b>Private equity</b>	82,023
15,262	<b>Infrastructure</b>	28,053
<b>1,454,847</b>		<b>1,797,695</b>

### Investments analysed by fund manager

Market Value at 31 March 2016			Market Value at 31 March 2017		
£'000	%		£'000	%	
470,435	31.4	BlackRock	601,837	32.6	
305,122	20.4	Fidelity	399,686	21.6	
198,852	13.3	Insight	236,632	12.8	
29,845	2.0	Lothbury	39,599	2.1	
81,540	5.4	Partners Group	110,076	6.0	
15,931	1.0	Threadneedle	16,476	0.9	
83,346	5.6	UBS	48,112	2.6	
312,726	20.9	Veritas	394,920	21.4	
<b>1,497,797</b>	<b>100.0</b>		<b>1,847,338</b>	<b>100.0</b>	

The following investments represent more than 5% of the net assets of the scheme

Market value 31 March 2016 £'000	% of total Fund	Security	Market value 31 March 2017 £'000	% of total Fund
274,408	17.99	Fidelity Institutional Select Global Equity	355,661	19.08
234,400	15.37	BlackRock Asset Management Aquila Life UK Equity Index Fund	301,033	16.15
198,845	13.04	Insight Umbrella Holdings	236,625	12.69
95,490	6.26	BlackRock Asset Management Aquila Life Global Dev Fundamental Fund	129,078	6.92

### Note 16c – Stock lending

The Statement of Investment Principles (SIP) states that stock lending will be permitted subject to specific approval. Currently the Fund does not undertake any stock lending.

## NOTE 17 – FINANCIAL INSTRUMENTS

### Note 17a – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2016			As at 31 March 2017		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
198,845			236,625		
269,784			345,284		
746,944			963,262		
157,734			142,448		
66,278			82,023		
15,262			28,053		
	63,065			64,623	
	11,836			6,239	
<b>1,454,847</b>	<b>74,901</b>	<b>0</b>	<b>1,797,695</b>	<b>70,862</b>	<b>0</b>
<b>Financial liabilities</b>					
(64)		(4,279)			(4,324)
<b>(64)</b>		<b>(4,279)</b>			<b>(4,324)</b>
<b>1,454,783</b>	<b>74,901</b>	<b>(4,279)</b>	<b>1,797,695</b>	<b>70,862</b>	<b>(4,324)</b>

### Note 17b – Net gains and losses on financial instruments

31 March 2016		31 March 2017	
Fair value		Fair value	
£'000		£'000	
<b>Financial assets</b>			
8,325	Fair value through profit and loss	315,598	
(36)	Loans and receivables	(392)	
<b>8,289</b>	<b>Total financial assets</b>	<b>315,206</b>	
<b>Financial liabilities</b>			
0	Fair value through profit and loss	0	
0	Financial liabilities at cost	0	
<b>0</b>	<b>Total financial liabilities</b>	<b>0</b>	
<b>8,289</b>	<b>Net financial assets</b>	<b>315,206</b>	

## Note 17c – Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2016			31 March 2017	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		<b>Financial assets</b>		
1,057,007	1,454,847	Fair value through profit and loss	1,120,845	1,797,695
74,901	74,901	Loans and receivables	70,815	70,811
<b>1,131,908</b>	<b>1,529,748</b>	<b>Total financial assets</b>	<b>1,191,660</b>	<b>1,868,506</b>
		<b>Financial liabilities</b>		
(64)	(64)	Fair value through profit and loss	(235)	(235)
(4,279)	(4,279)	Financial liabilities at cost	(4,038)	(4,038)
<b>(4,343)</b>	<b>(4,343)</b>	<b>Total financial liabilities</b>	<b>(4,273)</b>	<b>(4,273)</b>
<b>1,127,565</b>	<b>1,525,405</b>	<b>Net financial assets</b>	<b>1,187,387</b>	<b>1,864,233</b>

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## Note 17d – Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Gwynedd Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

**Note 17d – Valuation of financial instruments carried at fair value (continued)**

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
<b>Values at 31 March 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	822,831	864,788	110,076	1,797,695
Loans and receivables	70,811	0	0	70,811
<b>Total financial assets</b>	<b>893,642</b>	<b>864,788</b>	<b>110,076</b>	<b>1,868,506</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	(235)	0	(235)
Financial liabilities at cost	(4,038)	0	0	(4,038)
<b>Total financial liabilities</b>	<b>(4,038)</b>	<b>(235)</b>	<b>0</b>	<b>(4,273)</b>
<b>Net financial assets</b>	<b>889,604</b>	<b>864,553</b>	<b>110,076</b>	<b>1,864,233</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
<b>Values at 31 March 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	633,363	739,944	81,540	1,454,847
Loans and receivables	74,901	0	0	74,901
<b>Total financial assets</b>	<b>708,264</b>	<b>739,944</b>	<b>81,540</b>	<b>1,529,748</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	(64)	0	(64)
Financial liabilities at cost	(4,279)	0	0	(4,279)
<b>Total financial liabilities</b>	<b>(4,279)</b>	<b>(64)</b>	<b>0</b>	<b>(4,343)</b>
<b>Net financial assets</b>	<b>703,985</b>	<b>739,880</b>	<b>81,540</b>	<b>1,525,405</b>

## **NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

### **Risk and risk management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pensions committee. The Pension Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to pay pensions. The Funding Strategy Statement produced by the Administering Authority in conjunction with the Fund's Actuaries states how solvency and risk will be managed in relation to liabilities. The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

### **a) Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk for its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a risk factor analysis to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments

### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within the limits set in the Fund investment strategy.

### **Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Following analysis of the observed historical volatility of asset class returns in consultation with the Fund's investment advisors potential price changes have been determined for the various classes of assets held by the Fund. The rates to be applied to the Fund's asset categories are as follows:

Asset type	Potential market movement (+/-)	
	31 March 2016	31 March 2017
	%	%
UK Equities	9.3	15.8
Global Equities	9.3	18.4
Private Equity	9.3	28.5
Absolute Return Bonds	1.5	2.9
Alternatives (Infrastructure)	6.5	11.3
Property	2.3	14.2
Cash	0.0	0.0
Whole Fund		12.8

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the market price of the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2017 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	338,486	15.8	391,966	285,005
Global Equities	970,060	18.4	1,148,552	791,569
Private Equity	82,023	28.5	105,399	58,646
Absolute Return Bonds	236,625	2.9	243,487	229,763
Alternatives (Infrastructure)	28,053	2.9	28,867	27,240
Property	142,448	11.3	158,545	126,351
Cash	49,248	14.2	56,241	42,255
<b>Total assets available to pay benefits</b>	<b>1,846,943</b>	<b>12.8</b>	<b>2,083,352</b>	<b>1,610,534</b>

\* The whole fund values in the table above are based on 12.8% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	266,796	9.25	291,475	242,118
Global Equities	749,931	9.25	819,300	680,563
Private Equity	66,278	6.54	70,613	61,943
Absolute Return Bonds	198,845	1.48	201,788	195,902
Alternatives (Infrastructure)	15,262	6.54	16,260	14,264
Property	157,734	2.33	161,409	154,059
Cash	42,631	0.01	42,954	42,946
<b>Total assets available to pay benefits</b>	<b>1,497,477</b>		<b>1,603,799</b>	<b>1,391,795</b>

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2016	As at 31 March 2017
	£'000	£'000
Cash and cash equivalents	20,434	15,375
Cash balances	42,631	49,248
Fixed interest securities	198,845	236,625
<b>Total</b>	<b>261,910</b>	<b>301,248</b>

### Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

Asset type	Carrying amount as at 31 March 2017 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	15,375	154	(154)
Cash balances	49,248	492	(492)
Fixed interest securities*	236,625	(1,538)	1,538
<b>Total change in assets available</b>	<b>301,248</b>	<b>(892)</b>	<b>892</b>

\* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above

Asset type	Carrying amount as at 31 March 2016 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	20,434	204	(204)
Cash balances	42,631	426	(426)
Fixed interest securities*	198,845	1,869	(1,869)
<b>Total change in assets available</b>	<b>261,910</b>	<b>2,499</b>	<b>(2,499)</b>

\* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above.

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.53%, amounting to interest of £132,567 for the year.

A 1% increase in interest rates will not affect the interest received on fixed income assets but will reduce their fair value, as shown in the tables above. Changes in interest rates do not impact on the value of cash / cash equivalents but they will affect the interest income received on those balances. Changes to both the fair value of assets and income received from investments impact on the net assets to pay benefits but as noted above this does not have a significant effect on the Fund.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds assets denominated in currencies other than £UK.

**NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS  
(continued)**

The Fund has made commitments to private equity and infrastructure in foreign currency, (€214 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

The Fund's currency rate risk has been calculated based on the volatility of the currencies which would affect the value of the investments and any cash held in those currencies.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2016	31 March 2017
	£'000	£'000
Overseas and Global Equities	749,931	970,060
Global Fixed Income	198,845	236,625
Overseas Alternatives (Private Equity and infrastructure)	81,540	110,076
Overseas Property	3,116	3,636
Overseas Currency	0	0
<b>Total overseas assets</b>	<b>1,033,432</b>	<b>1,320,397</b>

**Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with the Fund investment advisors, the likely volatility associated with foreign exchange rate movements has been calculated with reference to the historic volatility of the currencies and their relative amounts in the Fund's investments.

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2017. The equivalent rate for the year ended 31 March 2016 was 6 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2017 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	970,060	1,067,066	873,054
Global Fixed Income	236,625	260,288	212,963
Overseas Alternatives (Private Equity and infrastructure)	110,076	121,084	99,068
Overseas Property	3,636	4,000	3,273
<b>Total change in assets available</b>	<b>1,320,397</b>	<b>1,452,438</b>	<b>1,188,358</b>

**NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS  
(continued)**

Currency exposure - by asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	749,931	794,521	705,341
Global Fixed Income	198,845	210,668	187,022
Overseas Alternatives (Private Equity and infrastructure)	81,540	86,388	76,692
Overseas Property	3,116	3,301	2,931
<b>Total change in assets available</b>	<b>1,033,432</b>	<b>1,094,878</b>	<b>971,986</b>

**b) Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The benchmark for the concentration of the funds held with investment managers is as follows.

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	19.0%
Insight	15.0%
Partners Group	7.5%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Veritas	19.0%

All investments held by investment managers are held in the name of the Pension Fund so, if the investment manager fails, the Fund's investments are not classed amongst their assets.

Contractual credit risk is represented by the net payment or receipt that remains outstanding. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2017 was £15.7m (£25.0m at 31 March 2016).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

## **NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

Employers in the Fund are not currently assessed for their creditworthiness or individual credit limits set. There is risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members) so the Administering Authority monitors membership movements on an annual basis.

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 26 three employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

This risk has increased by a legal judgement, which potentially indicates that employers with no contributing members cannot be charged contributions under the LGPS Administration Regulations. This ruling, however, does not affect the ability to collect contributions following a cessation valuation under Regulation 38(2). The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

### **c) Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments to pay pensions and other costs and to meet investment commitments.

The Administering Authority has a cash flow system that seeks to ensure that cash is available if needed. In addition, current contributions received from contributing employers and members far exceed the benefits being paid. Surplus cash is invested and cannot be paid back to employers. The Fund's Actuaries establish the contributions that should be paid in order that all future liabilities can be met.

There is no limit on the amount that the Pension Fund bank account can hold. The amounts held in this account should meet the normal liquidity needs of the Fund. Any temporary surplus is invested by the Administering Authority in accordance with the Treasury Management Strategy Statement to provide additional income to the Pension Fund. Surplus cash is invested in accordance with the Statement of Investment Principles.

The Fund also has access to an overdraft facility through the Administering Authority's group bank account arrangements. This facility would only be used to meet short-term timing differences on pension payments. As these borrowings would be of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2017 the value of illiquid assets was £158m, which represented 8.5% of the total Fund assets (31 March 2016: £143m, which represented 9.4% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2017 are due within one year as was the case at 31 March 2016.

### **Refinancing risk**

The key risk is that the Council will be bound to replenish a significant proportion of its pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS) reviewed as part of the 2016 valuation.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment
- to ensure that employer contribution rates are reasonably stable where appropriate
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return
- to reflect the different characteristics of different employers in determining contribution rates by having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over the 20 years.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2016. This valuation revealed that the Fund’s assets, which at 31 March 2016 were valued at £1,525 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £145 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the FSS. Individual employers’ contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund’s funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2017.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

#### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	3.9%
Salary increase	2.1%
Benefit increase	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

<b>Mortality assumption</b>	<b>Male Years</b>	<b>Female Years</b>
Current pensioners	22.0	24.2
Future pensioners (aged 45 at the 2016 valuation)	24.0	26.4

Copies of the 2016 valuation report and the Funding Strategy Statement are available on the Pension Fund's website [www.gwynedd-pensionfund.org.uk](http://www.gwynedd-pensionfund.org.uk)

### **Experience over the period since 31 March 2016**

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

## **NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19, and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2017 and 2016 are shown below:

	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'m</b>	<b>£'m</b>
Active members	1,285	1,214
Salary increase rate	388	246
Discount rate	747	514
<b>Total</b>	<b>2,420</b>	<b>1,974</b>

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

### **Assumptions used**

The financial assumptions used are those adopted for the Administering Authority's IAS19 report as shown below:

	<b>31 March 2016</b>	<b>31 March 2017</b>
<b>Assumption</b>	<b>%</b>	<b>%</b>
Inflation/pension increase rate	2.2	2.4
Salary increase rate*	4.2	2.4
Discount rate	3.5	2.6

The longevity assumption is the same as used for assessing the funding position as shown in Note 19 above.

The commutation assumption allows for future retirements to elect to take 50% of the maximum tax-free cash up to HMRC for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

<b>Sensitivity to the assumptions for the year ended 31 March 2017</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount £m</b>
0.5% p.a. increase in the pension increase rate	8%	189
0.5% p.a. increase in the salary increase rate	3%	73
0.5% p.a. decrease in the discount rate	11%	267

The principal demographic assumption is the longevity assumption. For sensitivity purpose the actuary estimates that a **one** year increase in life expectancy would increase the liabilities by approximately 3 – 5%.

## **NOTE 21 – CURRENT ASSETS**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
932	Contributions due - employees	820
3,221	Contributions due – employers	2,845
3,901	Transfer value received (individuals who join)	0
3,399	Sundry debtors	1,944
<b>11,453</b>	<b>Total debtors</b>	<b>5,609</b>
20,434	Cash	15,375
<b>31,887</b>	<b>Total</b>	<b>20,984</b>

### **Analysis of debtors**

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
2,073	Gwynedd Council	2,352
732	Central government bodies	560
5,631	Other local authorities	1,209
3	NHS bodies	3
3,014	Other entities and individuals	1,485
<b>11,453</b>	<b>Total</b>	<b>5,609</b>

## NOTE 22 – CURRENT LIABILITIES

2015/16		2016/17
£'000		£'000
1,714	Sundry creditors	2,591
27	Transfer value payable (leavers)	282
2,538	Benefits payable	1,216
<b>4,279</b>	<b>Total</b>	<b>4,089</b>

### Analysis of creditors

2015/16		2016/17
£'000		£'000
901	Gwynedd Council	1,051
43	Central government bodies	37
1	Other Local Authorities	138
19	NHS bodies	58
3,315	Other entities and individuals	2,805
<b>4,279</b>	<b>Total</b>	<b>4,089</b>

## NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2016	Market value at 31 March 2017
	£'000	£'000
Clerical Medical	2,936	3,349
Equitable Life	258	229
Standard Life	51	53
<b>Total</b>	<b>3,245</b>	<b>3,631</b>

AVC contributions were paid directly to the three managers as follows:

	2015/2016	2016/2017
	£'000	£'000
Clerical Medical	526	561
Equitable Life	0	0
Standard Life	1	0
<b>Total</b>	<b>527</b>	<b>561</b>

## NOTE 24 - RELATED PARTY TRANSACTIONS

### Gwynedd Council

The Gwynedd Pension Fund is administered by Gwynedd Council. Consequently there is a strong relationship between the Council and the pension fund.

The Council incurred costs of £1,008,589 (£1,075,225 in 2015/16) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the pension fund and contributed £17.63m to the Fund in 2016/17 (£17.31m in 2015/16). At the end of the year the Council owed £2.35m to the Fund (see Note 21) which was primarily in respect of contributions for March 2017 and the Fund owed £1.05m to the council (see Note 22) which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2016/17, the Fund received interest of £132,567 (£147,611 in 2015/16) from Gwynedd Council.

### Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2016/17 (Committee members T.O. Edwards and P. Jenkins). In addition, committee members T.O. Edwards, S. Glyn, P. Jenkins, H.E. Jones, W.T. Owen, and P.Read are active members of the pension fund.

There was one member of the Pension Board who was in receipt of pension benefits from the Gwynedd Pension Fund during 2016/17 (Board member S. Warnes). In addition, Board members A.W. Deakin, V. Halloran, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the pension fund.

### Key Management Personnel

The CIPFA Code of Practice on Local Authority Accounting exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances in the Code satisfy the key management personnel disclosure requirements of IAS24. This also applies to the accounts of Gwynedd Pension Fund.

The disclosures required can be found in the accounts of Gwynedd Council.

## NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

Outstanding capital commitments (investments) at 31 March were as follows:

	<b>Total commitments €'000</b>	<b>Commitment at 31 March 2016 €'000</b>	<b>Commitment at 31 March 2017 €'000</b>
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	5,044	3,372
P.G. Global Infrastructure 2012	40,000	22,005	15,894
P.G. Direct 2012	12,000	1,813	1,181
P.G. Global Value 2014	12,000	7,119	4,638
P.G Direct 2016	50,000	18,202	34,373
<b>Total Euros</b>	<b>214,000</b>	<b>60,396</b>	<b>65,671</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
P.G. Emerging Markets 2011	7,000	2,078	1,623
P.G Secondary 2015	38,000	34,804	32,723
P.G Direct Infrastructure 2015	43,600	42,111	35,219
<b>Total Dollars</b>	<b>88,600</b>	<b>78,993</b>	<b>69,565</b>

'PG' above refers to Partners Group, the investment manager which invests in 'alternatives' (private equity and infrastructure) on behalf of the Fund.

These commitments relate to outstanding call payments on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of the original commitment.

## NOTE 26 – CONTINGENT ASSETS

Three admitted body employers in the Gwynedd Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

## **NOTE 27 – IMPAIRMENT LOSSES**

### **a) Impairment for bad and doubtful debts**

As explained in Note 5 there has not been any impairment for bad and doubtful debts.

### **b) Impairment of Icelandic bank deposit**

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2017.

## **NOTE 28 - PENSION FUND PUBLICATIONS**

A separate Annual Report is produced for the Pension Fund. This document includes the accounts for the Fund along with more information regarding the administration and investment activities. It includes the following documents:

Statement of Investment Principles

Funding Strategy Statement

Governance Policy and Governance Compliance Statement

Communications Policy Statement

Copies can be obtained from the Pension Fund website [www.gwynedd-pensionfund.org.uk](http://www.gwynedd-pensionfund.org.uk) on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.



WALES AUDIT OFFICE  
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Auditor General for Wales

# Audit of Financial Statements Report – **Gwynedd Pension Fund**

Audit year: 2016-17

Date issued: September 2017

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[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

# Contents

The Auditor General intends to issue an **unqualified audit report** on your financial statements subject to satisfactory resolution of outstanding matters noted on page four. There are no issues to report to you prior to their approval.

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# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2017 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Gwynedd Pension Fund are £18,642k for income and expenditure items and working capital balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Gwynedd Pension Fund, for 2016-17 that require reporting under ISA 260.

## Status of the audit

- 6 We have now substantially completed the audit work. When we issued this report we had not yet finalised:
  - Our testing including testing of underlying membership data, approach to uprating in relation to the triennial valuation, journals testing and review of employer contributions made within 19 day of the month end;
  - Our completion of review of annual report and accounts; and
  - Our quality assurance and partner reviews.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Investment Manager on the 13 September 2017 and communicated to the S151 Officer at a later date.

## Proposed audit report

- 8 It is the Auditor General's intention to issue an **unqualified audit report** on the financial statements subject to satisfactory resolution of outstanding matters above and once you have provided us with a Letter of Representation based on the one set out in [Appendix 1](#).

9 The proposed audit report is set out in [Appendix 2](#).

## Audit outcomes

### Uncorrected misstatements

10 We set out below one judgemental misstatement that we have identified, which has been discussed with management but remains uncorrected. We request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons for non-correction.

- **Judgemental - Investment Valuations – Property & Private Equity:** We developed an independent expectation for the valuation of the property funds held by Gwynedd Pension Fund based on the draft statement of accounts, taking the Net Asset Value and flexing by an appropriate property benchmark to roll forward to the year-end. Our testing identified an overstatement of the property and private equity investments held (Partners and UBS) of £1,421k compared to managements calculations.

### Corrected misstatements

11 There are no corrected misstatements which we consider should be drawn to your attention.

### Significant Risks

Financial audit risk	Proposed audit response
<p><b>Management Override of Controls.</b> The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team performed the following tests to address the significant risk around Management Override of Controls:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of interest;</li> <li>• reviewed the design and implementation of controls over journal entries to the financial ledger and accounting estimates;</li> <li>• reviewed accounting estimates for evidence of bias; and</li> <li>• evaluated the rationale for any significant transactions outside the</li> </ul>

Financial audit risk	Proposed audit response
	<p>normal course of business including those with related parties.</p> <p><b>No issues identified, other than internal control recommendation raised. See Appendix 3.</b></p>
<p><b>Valuation of investments</b></p> <p>The Fund makes some use of investments in unquoted investment vehicles, such as private equity funds.</p> <p>Market volatility raises questions about how to value private equity funds. It would normally be expected that the reasonableness of the Fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the Fund year-end.</p>	<p>My audit team performed the following tests to address the significant risk around valuation of investments:</p> <ul style="list-style-type: none"> <li>• we identified and tested the design and implementation of controls present which ensure investments are valued correctly;</li> <li>• we reviewed the internal control reports to gain an understanding of the control environment at the investment managers and reviewed management's consideration of these reports;</li> <li>• we obtained third-party confirmations of investment balances as at 31 March 2017;</li> <li>• we selected a sample of investments and recalculated the valuations; and</li> <li>• we engaged our internal financial instrument experts to ensure our testing approach was appropriate given the Fund's specific investment strategy and portfolio.</li> </ul> <p><b>No issues identified.</b></p>
<p><b>Triennial Valuation Data</b></p> <p>During the year, the Local Government Pension Scheme for Gwynedd Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority provides the actuary with a large volume of data in relation to admitted bodies including their share of pensions assets and liabilities to carry out this triennial valuation.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p>	<p>My audit team performed the following tests to address the significant risk around the Triennial Valuation Data:</p> <ul style="list-style-type: none"> <li>• we identified and tested the design and implementation of controls around the transfer of the data;</li> <li>• reviewed and inspected and tested the processes for cleansing the data;</li> <li>• engaged with the actuary to discuss the data used in the valuation, and;</li> <li>• we reviewed the data reports from the actuary.</li> </ul> <p><b>Testing is ongoing with no issues identified to date, however, understanding the uprating of data and testing of underlying accuracy of</b></p>

Financial audit risk	Proposed audit response
	<b>membership data in relation to the triennial valuation remains outstanding which is being completed by specialists.</b>

## Other significant issues arising from the audit

- 12 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were **no** issues arising in these areas this year:
- We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
  - We did not encounter any significant difficulties during the audit.
  - There were no significant matters discussed and corresponded upon with management which we need to report to you.
  - There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
  - We did not identify any material weaknesses in your internal controls. However we have raised one control observation in Appendix 3. The audit team has already discussed these issues with the Investment Manager on the 13 September 2017 and these have been subsequently shared with the S151 Officer.
  - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

## Recommendations arising from our 2016-17 financial audit work

- 13 There are no new recommendations arising from our financial audit work, other than revised recommendations being raised as a result of the follow up of 2015-16 financial audit work, see below.

## Recommendations arising from our 2015-16 financial audit work

- 14 The recommendations arising from our financial audit work are set out in **Appendix 3**. Management has responded to them and we have followed up on progress during the 2016-17 audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

- 15 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 16 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Gwynedd Pension Fund that we consider to bear on our objectivity and independence.

# Appendix 1

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## Draft Letter of Representation

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

28 September 2017

Dear Sir,

## Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Pension Fund for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you:

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

1. The preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2016/17; in particular the financial statements give a true and fair view in accordance therewith.
2. The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.
3. We confirm that the Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Scheme should change.
4. We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisors. We confirm that we are not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which we considered did not require reporting. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Scheme year or subsequently concerning matters of noncompliance with any legal duty / We have drawn to your attention all correspondence and notes of meetings with regulators.

# Appendix 1

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6. We confirm that, under section 27 of the Pensions Act 1995, no trustee of the Scheme is connected with, or is an associate of Deloitte LLP, which would render Deloitte LLP ineligible to act as auditor to the Scheme.
7. There have been no changes to the Scheme rules during the year and up to the current date.

## Information provided

We have provided you with:

1. Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
2. The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
3. Our knowledge of fraud or suspected fraud that we are aware of and that affects Gwynedd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
4. Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
5. Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
6. The identity of all related parties and all the related party relationships and transactions of which we are aware.
7. The Membership data contained within the annual report is accurate and a true and fair view of the Pension Fund's membership numbers.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed. All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

# Appendix 1

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All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in aggregate, to the financial statements taken as a whole

## Representations by Gwynedd Council's Audit and Governance Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Gwynedd Council's Audit and Governance Committee on 28 September 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Yours faithfully,

Signed by: .....

**Dafydd L Edwards**

**Head of Finance**

**Gwynedd Council**

**Date: 28 September 2017**

Signed by: .....

**Councillor R Medwyn Hughes**

**Audit and Governance Committee Chairman**

**Gwynedd Council**

**Date: 28 September 2017**

# Appendix 2

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## Proposed audit report of the Auditor General to Gwynedd Council and the Gwynedd Pension Fund

### **Auditor General for Wales' report to the Members of Gwynedd Council**

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Gwynedd Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

Gwynedd Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts and Gwynedd Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Gwynedd Council's and Gwynedd Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

# Appendix 2

## **Opinion on the accounting statements of Gwynedd Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Gwynedd Council as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

## **Opinion on the accounting statements of Gwynedd Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Gwynedd Pension Fund during the year ended 31 March 2017 and of the amount and disposition of the fund's assets and liabilities as at that date, and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

## **Opinion on other matters**

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

## **Matters on which I report by exception**

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

## **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Gwynedd Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
29 September 2017

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our 2015-16 audit with management's response to them. We have followed these up during the 2016-17 audit and have recorded the results below.

<b>Suspense Accounts are not Formally Reconciled</b>	
<b>PY Recommendation</b>	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that the suspense account which is used to allocate the employee and employer contributions on an almost daily basis and the suspense account which posts transactions between the Pension Fund and Gwynedd Council are not formally reconciled and signed off as prepared and then separately reviewed.
<b>Management Response</b>	No specific response made as recommendation largely focussed on review of journals.
<b>2016-17 Finding</b>	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
<b>Status</b>	<b>Recommendation Revised:</b> It is recommended that the Fund's suspense accounts are reconciled and reviewed on a monthly basis.
<b>Management response</b>	We intend to clear, rather than reconcile, the relevant suspense account on a weekly, rather than monthly basis.
<b>Journal Authorisation</b>	
<b>PY Recommendation</b>	It is recommended that journals are authorised before being posted.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that there is no process in place for the authorisation of journals. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls, and therefore management override is required to be a presumed risk for all audits carried out under International Standards of Auditing.
<b>Management response</b>	The staff who enter journals are at a responsible level and review of each journal would take up managerial time, but we intend to generally review the processing of journals and will do so in consultation with Deloitte.

# Appendix 3

<b>2016-17 Finding</b>	We identified that there is no process in place for the authorisation of journals prior to them being posted, however, we are satisfied that there are sufficient reviews undertaken by management which mitigate the risk of management override.
<b>Status:</b>	<b>N/a - Recommendation implemented.</b>

## Investments Should be held at Market Value

<b>PY Recommendation</b>	It is recommended that the Fund's investments are held at market value in the ledger.  We identified that the Fund holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that the Fund holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
<b>Management response</b>	We will consider the practicality of recording the market value on the ledger. The year-end market value is not derived from the reconciliation. It is derived from the reports from the custodian and the investment managers. The reconciliation ensures that the ledger entries are correct.
<b>2016-17 Finding</b>	We identified that the Fund continues holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
<b>Status</b>	<b>Recommendation Re-raised</b>
<b>Management response</b>	We will implement this recommendation when the equity investments have been transferred to the Wales Pool.  The year-end market value is not derived from the reconciliation. It is derived from the reports from the custodian and the investment managers. The reconciliation ensures that the ledger entries are correct.

## Improving Banking Controls

<b>PY Recommendation</b>	It is recommended that the euro account is brought into the eFinancials accounting system. In addition, it is recommended that bank reconciliations are prepared and reviewed in a timely manner.
<b>Priority</b>	Medium

# Appendix 3

<b>2015-16 Finding</b>	The Fund has four bank accounts. We identified that the euro bank account is not set up on the eFinancials accounting system. We also identified that for December 2015, two bank accounts had an untimely review (prepared on 5 January 2016, and reviewed on 2 February 2016). In addition, we identified that one bank account reconciliation showed no evidence of review and that a further account reconciliation showed no evidence of sign off of preparation or review.
<b>Management response</b>	We will ensure that all bank reconciliations are reviewed by another officer. We will investigate the practicality of bringing the Euro account onto the ledger. The bank system requires three officers to process transactions, which minimises the risk of misappropriation of funds.
<b>2016-17 Finding</b>	We identified that the euro bank account is not set up on the eFinancials accounting system.
<b>Status</b>	<b>Recommendation Revised:</b> It is recommended that the euro account is brought into the eFinancials accounting system.
<b>Management Response</b>	We are still investigating the practicality of bringing the Euro account onto the ledger and the exchange rate to use for this purpose.
<b>Membership Numbers</b>	
<b>Recommendation</b>	It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data. In addition, it is recommended that the Pension Database Administrator runs a data extract of Membership data on, or as close to 31 March as possible. It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that the Pension Manager could not supply a membership number reconciliation between 2014-15 and 2015-16. The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.
<b>Management response</b>	An Altair report will be developed to produce the movements in membership between two specific dates. This should enable reconciliation.  Running the data extract of membership data close to 31 March will not solve the problem as the March data is entered during April when it is received from employers.

# Appendix 3

<b>2016-17 Finding</b>	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2015-16 and 2016-17. The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
<b>Status:</b>	<b>Recommendation Re-raised</b>
<b>Management response</b>	<p>Data reports from our pensions system (Altair) are produced at the end of each financial year and have been presented to the Auditors as requested. These reports show figures in relation to all records held on the system at any given time, and the numbers that fall into each type of status e.g. active members, deferred members or pensioners etc. Other reports show the movement between different statuses between two specific dates (movement analysis reports). However, it should be noted that the data for the end of the financial year (31<sup>st</sup> March) is not immediately accepted (it can take a substantial number of weeks to receive data from employers), and therefore, the quality of the data extracted from the system on certain dates can be incorrect in relation to the true situation.</p> <p>It should be noted that the pensions system is a system in constant use changing from day to day with new records being created, modified and deleted, as members of staff respond to new information received by employers and by processing members pension benefits. Our opinion is that it would be difficult or impossible to store evidence other than the documents held on individual member records in order to show, for example, why the number of pension records increase or decrease between two dates.</p> <p>A request has been made to employers that they provide their data to the Pensions Section using the system "I-Connect" which facilitates the process of transferring data accurately and regularly on a monthly basis between the employers and the pension system Altair. It is believed that this method of transferring data will greatly improve the accuracy of the data held and the efficiency of administering the pension scheme.</p>

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# Agenda Item 7

MEETING:	<b>PENSIONS COMMITTEE</b>
DATE:	<b>29 SEPTEMBER 2017</b>
TITLE:	<b>TREASURY MANAGEMENT 2017/18 – MID YEAR REVIEW</b>
PURPOSE:	<b>CIPFA’s Code of Practice recommends that a report on the Council’s actual Treasury Management during the current financial year is produced.</b>
RECOMMENDATION:	<b>RECEIVE THE REPORT FOR INFORMATION</b>
AUTHOR:	<b>DAFYDD L EDWARDS, HEAD OF FINANCE</b>

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## 1. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy’s Treasury Management Code (CIPFA’s TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides a mid-year update.

The Council’s Treasury Management Strategy for 2017/18 was approved by full Council on 2 March 2017 which can be accessed on

<https://democracy.cyngor.gwynedd.gov.uk/ielistdocuments.aspx?cid=130&mid=1657&ver=4>

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council’s treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.

## 2. EXTERNAL CONTEXT

UK Consumer Price Inflation (CPI) index rose over the first quarter of 2017/18 and the data print for May showed CPI at 2.9%, its highest since June 2013. The effect of the fall in fuel prices was offset by rises in a number of other categories in the CPI ‘basket’ as the fall in the value of sterling following June 2016’s referendum result continued to feed through into higher import prices.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty and in the hope of gaining an enhanced mandate to enter the forthcoming Brexit negotiations. The surprise result has led to a minority Conservative government in an arrangement with the Democratic Unionist Party. This political impasse clearly results in an enhanced level of political uncertainty,

however the potential for a so-called hard Brexit is now diminished, reducing the associated economic headwinds for the UK economy from a 'no deal' or otherwise unfavourable trade agreement.

The reaction from the markets on the election's outcome has been fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, whether new trade treaties and arrangements are successfully concluded and whether or not the UK continues to remain part of the EU customs union post the country's exit from the EU.

In the face of this uncertainty, Arlingclose expects the Bank of England will look through periods of high inflation and maintain its low-for-longer stance on policy interest rates for an extended period.

There were a few credit rating changes during the period. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1

### 3. INVESTMENT ACTIVITY

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

The Welsh Government's Investment Guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the 5 months, the Council's investment balance ranged between £68.5 and £31.6 million due to timing differences between income and expenditure. The investment position during the period is shown in the table below.

	<b>31.3.17 Balance £m</b>	<b>5 month Movement £m</b>	<b>31.8.17 Balance £m</b>
Banks & building societies (unsecured)	21.3	(8.1)	13.2
Covered bonds (secured)	2.2	0	2.2
Government (incl. local authorities)	6.0	11.0	17.0
Money Market Funds	0.0	18.2	18.2
<b>Total investments</b>	<b>29.5</b>	<b>21.1</b>	<b>50.6</b>

Security of capital has remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council’s minimum long-term counterparty rating for institutions defined as having “high credit quality” is A- across rating agencies Fitch, S&P and Moody’s); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

## Performance Report

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in the table below.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/17	4.22	AA-	3.27	AA
30/06/17	4.07	AA-	3.30	AA

### Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Investments were made with banks and building societies and included call accounts, fixed-rate term deposits and certificates of deposit, Money Market Funds and covered bonds.

The average cash balances were £36.5m during the five months. The UK Bank Rate had been maintained at 0.25% since August 2016.

The Council’s budgeted investment income for the year is estimated at £0.17m. based on an investment outturn of 0.5% for the whole year.

## Compliance Report

The Head of Finance confirms compliance with its Prudential Indicators for 2017/18, which were set in March 2017 as part of the Council’s Treasury Management Strategy Statement.

## Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

The Head of Finance is pleased to report that all treasury management activities undertaken during the five months to 31 August 2017 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating or credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	6.0	3.30

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	100%		
Upper limit on variable interest rate exposure	50%	50%	50%
Actual	0%		

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£40m	£20m	£10m
Actual	£2.18m	£2.18m	£2.18m

## 7. Investment Training

During the period officers have attended investment training with Arlingclose and CIPFA relevant to their roles.

## 8. Outlook for the Remainder of 2017/18

UK GDP growth is forecast to be around 1.6% for 2017 and 1.4% in 2018. Subdued consumer spending will be the main driver behind this period of weaker growth, along with muted business investment due to Brexit-related uncertainty.

Arlingclose's central case for the path of Bank Rate over the next three years remains at 0.25%. Arlingclose believes that the high inflation reflects the impact of sterling's weakness on imports, and in the face of weaker growth prospects, will be looked through by Bank of England policymakers. The likely path for Bank Rate is for it to remain flat at 0.25%. However, there is downside risk for rates to be cut to 0.00% in the short-term and medium-term, and scope for rates to be increased from 2019 onwards, albeit modestly to 0.50%.

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent any immediate market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.